

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company for Authority Pursuant to Public Utilities Code Section 851 to Sell Cushion Gas in its Aliso Canyon and La Goleta Storage Fields. (U 904 G)

Application 01-04-007
(Filed April 9, 2001)

**ASSIGNED COMMISSIONER'S RULING SEEKING COMMENT
ON HOW THIS PROCEEDING SHOULD BE PROCESSED**

I. Summary

At the Commission's meeting of March 6, 2002, Items H-2 and H-2a were withdrawn from the agenda. These two agenda items proposed different methods for the sale of 14 billion cubic feet (Bcf) of reclassified cushion gas at Southern California Gas Company's (SoCalGas) Aliso Canyon and La Goleta natural gas storage fields. This reclassified cushion gas was made available for sale as a result of the drilling and rework of the existing fields as authorized in Decision (D.) 01-06-086.

Today's ruling seeks input on how the Commission should proceed with respect to this proceeding. Specifically, I seek comment on: (1) whether D.01-06-086 should be modified to eliminate the Phase 2 portion of that proceeding, and instead have those Phase 2 issues considered in conjunction with how the 14 Bcf of gas should be sold, and other issues that have arisen which I seek comment on; (2) whether the Commission should proceed with the adoption of a decision which resolves the sale of the 14 Bcf of gas, followed by hearings on

the Phase 2 issues and the other issues which have arisen; or (3) other suggestions for efficiently processing the gas sales issue and the Phase 2 ratemaking issues and other issues.

Interested parties may file comments on these issues on or before April 30, 2002. Reply comments are to be filed on or before May 10, 2002.

II. Background

The application of SoCalGas for authority to sell its cushion gas at its Aliso Canyon and La Goleta natural gas storage fields was filed on April 9, 2001. At the time the application was filed, gas prices were projected to average \$10 per thousand cubic feet (Mcf) during the 2001-2002 winter.

D.01-06-086 authorized SoCalGas to proceed with the well drilling and well rework activity at both storage facilities, and to reclassify the 14 Bcf of cushion gas as working gas available for sale. However, D.01-06-086 prohibited the sale of the reclassified cushion gas until the Commission directed SoCalGas to do so on the terms and conditions specified in a future Commission decision. The decision also provided that a second phase would be held after the sale of the reclassified cushion gas had taken place to address the ratemaking issues. These ratemaking issues include the allocation of the anticipated net gain on sale of the reclassified cushion gas, the anticipated reduction in prospective operating costs, and the allocation of benefits among the customer classes.

The draft decision of the assigned Administrative Law Judge was placed on the Commission's December 11, 2001 agenda. The draft decision proposed that the entire 14 Bcf of gas be transferred to SoCalGas' core portfolio. An alternate draft decision of Commissioner Duque was also placed on the same agenda. Commissioner Duque's alternate proposed that SoCalGas transfer 70% of the 14 Bcf of gas to its core portfolio, and that the remaining 30% be sold on the

open market. Commissioner Duque withdrew his alternate when a revised draft decision, proposing that 70% of the gas be transferred to the core portfolio and the remaining 30% be sold on the open market, was placed on the January 9, 2002 agenda. Subsequently, an alternate decision was placed on the agenda by Commissioner Brown, which proposed that the entire 14 Bcf of reclassified cushion gas be sold on the open market.

III. Comments Sought

Since the application was first filed, several things have changed. The price of natural gas has dropped from the high prices that were being experienced around the time the application was filed in April 2001. Instead of authorizing a sale of the gas during the 2001-2002 winter heating season, the winter season has now passed, and gas prices have returned to more normal levels. The sense of urgency in selling the 14 Bcf of gas has now passed.

D.01-06-086 contemplated that the Phase 2 ratemaking issues be considered after the gas was sold pursuant to a Commission decision stating what the terms and conditions of the sale would be. Given the passage of time, and the lack of an urgent need to specify the terms and conditions of the sale of the gas, there is a window of opportunity to consider the terms and conditions of the sale together with the ratemaking issues that are currently scheduled for Phase 2.

I understand that there may be some water intrusion problems at both storage facilities, and insufficient injection capacity at Aliso Canyon, which may affect the ability of SoCalGas to sell an additional 14 Bcf of working gas storage as a result of the sale of the 14 Bcf of reclassified cushion gas. I seek comment from SoCalGas regarding the water intrusion problems, the extent of the problems, whether this will compromise the ability to use these fields for gas

storage, and how the water intrusion may affect the ability to sell an additional 14 Bcf of working gas storage. I also welcome comments from the other parties regarding the water intrusion issues.

In addition, I seek comment on the cost of the well drilling work. This work was originally estimated at \$16 million. According to the March 2002 report in compliance with D.01-06-086, SoCalGas has incurred to date approximately \$16.5 million. By the time the project is completed, SoCalGas estimates that the final total projects costs, not including the time value of money, will be in the neighborhood of \$17.6 to \$18.4 million. The reason given for the higher than expected project costs was higher than expected costs for oilfield contract services. I am interested in receiving comments from the parties on the cause of these higher than expected costs, were these costs foreseeable, and the estimated carrying costs associated with the project.

I also seek comment from the parties as to whether it is more efficient for the Commission to consider whether the terms and conditions of the sale of the reclassified cushion gas, along with the Phase 2 ratemaking issues and the water intrusion/injection capacity issues, should be addressed in hearings on a schedule that would result in a decision before the 2002-2003 winter season begins. Alternatively, should the Commission proceed expeditiously with the issuance of a decision that lays out the terms and conditions for the sale of the 14 Bcf of gas, followed by hearings into the Phase 2 issues and the water intrusion/injection capacity issues. Other proposals for efficiently handling these remaining issues are also welcome.

Interested parties may file and serve their opening comments on what process the Commission should follow. The opening comments should include the party's proposed schedule. These opening comments shall be filed and served no later than April 30, 2002. Interested parties may also file reply

comments to the opening comments. The reply comments shall be filed and served no later than May 10, 2002.

Pursuant to Public Utilities Code Section 1708, the parties are put on notice that D.01-06-086 may be altered or amended by the Commission if a process to concurrently address the gas sales issue with the Phase 2 ratemaking issues is adopted.

Therefore, **IT IS RULED** that:

1. Interested parties may file and serve opening comments on the items I have listed in section III of this ruling. Those comments shall be filed on or before April 30, 2002. The opening comments should include a proposed schedule.
2. Any reply comments to the opening comments shall be filed on or before May 10, 2002.
3. Parties are on notice that if a process is adopted to address the Phase 2 ratemaking issues with the gas sales issue, that Decision 01-06-086 could be altered or amended.

Dated April 11, 2002, at San Francisco, California.

/s/ LORETTA M. LYNCH

Loretta M. Lynch

President

Assigned Commissioner

CERTIFICATE OF SERVICE

I certify that I have by mail, and by electronic mail, to the parties to which an electronic mail address has been provided, this day served a true copy of the original attached Assigned Commissioner's Ruling Seeking Comment on How This Proceeding Should Be Processed on all parties of record in this proceeding or their attorneys of record.

Dated April 11, 2002, at San Francisco, California.

/s/ KE HUANG

Ke Huang

N O T I C E

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If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at (415) 703-2074, TTY 1-866-836-7825 or (415) 703-5282 at least three working days in advance of the event.